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Staff report and recommendation on
Proposition 9 / Michael B. Wilmar.

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PROPOSITION 9 (June 3, 1980)

"The people of the State of California do enact as follows:

First: Section 26.5 is added to Article XIII thereof, to read:

(a) Taxes on or measured by income which are imposed under the Personal Income Tax Law or any successor thereto shall be at rates not to exceed 50 percent of those rates in effect for the 1978 taxable year.

(b) The Legislature shall provide for a system of adjusting the personal income tax brackets under the Personal Income Tax Law or any successor thereto to reflect annual changes in the California Consumer Price Index or any successor thereto.

Second: Subdivision (s) is added to Section 3 of Article XIII thereof, to read:

(a) Business inventories.

Third: If any provision of this measure or the application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the measure which can be given effect without the invalid provision or application, and to this end the provisions of this measure are severable."

amount of money that can be made available to local government. Thus, the predicted 4.9 billion reduction in state revenues will have a serious impact on local funding. The effect can be better appreciated when it is realized that 80% of all state revenues are presently transferred by the state to local governments.

When Proposition 13 passed, local government reduced planning, recreational and educational services to some extent. The planning done by local government helps the Commission by providing specific and detailed local policies for shoreline and Bay development, environmental documents that identify the expected impacts of proposed projects and advice on the local governmental position on projects pending before the Commission. Some of these services have already been curtailed as a result of Proposition 13. Further reductions in local planning services will likely lead to an increased workload for the Commission and a lack of sufficient local review of projects which the Commission must then consider.

The most immediate indirect impact will be on the willingness of local governments to assume responsiblility for public access areas the Commission is able to obtain through permit conditions. While public ownership and maintenance is not essential for public access areas, it usually results on higher quality improvements and better maintenance in the larger public access areas, particularly those not directly related to a commercial development. The loss of revenues from Proposition 13 has already made local governments less willing to accept public access dedications, and in at least one case, required closure of a public access area for a time because the responsible local agency did not have the funds to repair storm damage to a pathway. That trend can be expected to accelerate if Proposition 9 passes. In fact, it has been indicated that dwelling unit tax revenues from the Harbor Bay Isle development, now earmarked for improvement of shoreline access at the development, may be spent elsewhere in the City of Alameda if Proposition 9 passes.

IV. Conclusion

Proposition 9 would result in a substantial loss of revenue to state and local government. It would have a negative, but not dramatic, effect on the Commission's work. It would have an unfortunate effect on business. It would likely affect education, planning, and recreational services more detrimentally than other types of public services. The California economy would be more uncertain in light of Proposition 13 and other recent fiscal provisions. In that regard it is untimely; some experience should be obtained before further tax reforms are identified.

V. Recommendation

The staff recommends the Commission oppose Proposition 9.

B. Increased Permit Fees

The Commission then requested the staff to prepare regulations to increase permit fees sufficiently to generate the remaining approximately $176,000. The staff is presently preparing such regulations. To provide that amount of money, it will be necessary to increase permit fees by 30%. It is not, of course, possible to tell exactly how much revenue will result from this increase because the Commission cannot precisely forecast how many applications will be received. Increased permit fees will increase the costs of project development. As many applicants are local governments, this effect is especially unfortunate. The staff also expects that the enforcement program may need increased staffing and funding. If the fees are believed to be too burdensome, persons may do work without the necessary BCDC permit.

III. Indirect Effects

Several economists, including Milton Friedman, believe that passage of Proposition 9 will have a negative impact on business. They say that public financing will be more difficult and more expensive to obtain. In this regard, Standard and Poor has already reduced the bond rating for California debt instruments. Some economists also believe that local and state government will attempt to recapture some of the lost revenue through increases in various business taxes. As California already has fairly high taxes on business, such increases may discourage both new business and business expansion in California. If this happens, less building activity will occur and there will, of course, be a corresponding loss of employment opportunities.

The Commission is affected because of its policies to encourage water-oriented development around San Francisco Bay to provide new industry and jobs. One example is port redevelopment, one of the Commission's long standing goals. Such development is likely to be hampered. It will be more difficult for the Bay Area ports to attract new tenants who will not want to pay higher business taxes. It will also be more expensive for ports to finance new or modernized port facilities because of the poorer California bond rating and the resulting higher interest that must be paid on bonds that can be sold. These fiscal impacts will discourage port redevelopment in California and make it more difficult for the state to compete with other West Coast ports.

The expected increases in the cost of doing business in California will also affect the decisions of all other businesses, including water-related industry and commercial and recreational projects, which are also identified in the Bay Plan as desirable for San Francisco Bay.

Another indirect effect on the Commission will be a reduction in local services. Proposition 13 has already reduced local revenues by $7 billion in 1978. This loss has resulted in some reduction in services. The state has supplemented much of the lost local revenue. But, the state bailout recognizes that reduction in state revenue will result in a reduction in the

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SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION
30 Van Ness Avenue, San Francisco 94102 557 - 3686
May 9, 1980

TO: All Commissioners and Alternates
FROM: Michael B. Wilmar, Executive Director

SUBJECT: STAFF REPORT AND RECOMMENDATION ON PROPOSITION 9
(For Commission consideration on May 15, 1980)

I. Background

Attached is a copy of Proposition 9, the "Jarvis II" initiative. If passed, the initiative would reduce the state personal income tax to 50% of the tax rate applied in 1978. The resulting loss in state srevenue is estimated by the Legislative Analyst to be 4.9 billion dollars for the 1980-1981 period and 4.4 billion dollars for the 1981-1982 period. The loss of revenue would have both direct and indirect effects on the Commission.

II. Direct Effects

Proposition 9 would have the following direct effects on the Commission's work: (1) the Commission's budget for the next fiscal year could be reduced; (2) permit fees would be increased; and (3) projects necessary to the Bay Area's economy, especially port development and other water-oriented construction, would likely decline.

A. Budget Reduction

Earlier this year, the Department of Finance directed the Commission to identify reductions in its $744,000 state budget such that $223,000 would be saved in the event Proposition 9 passed. To comply with this directive, the Commission stated it would do the following: (1) reduce printing costs by $16,000 by eliminating publications on public access and general information booklets and by reducing the type and extent of graphics to be used in both the diked wetland and appearance and design studies; (2) reduce the mailing list by 50% saving $12,000; (3) reduce the training budget from $8,000 to $6,000, saving $2,000 and (4) eliminate the work/study program thereby saving $19,000. These modifications would result in a $47,000 reduction. Other reductions would have meant a substantial curtailment of the Commission's planning and regulatory activities. To avoid such a negative impact, the staff requested the Department of Finance to consider offsetting the remaining reduction by increased permit fees.

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